The Evaluation of Post-Privatization Performance of firms in Bangladesh, An agency theory perspective

By

Mohammad Syeduzzaman

ID No. 52110002

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Declaration

I, the undersigned, here declare that this dissertation entitled "The evaluation of post privatization performance of firms in Bangladesh, an agency theory perspective" is my own work, and all the sources that I have used or quoted have been indicated and acknowledge by means of proper references.

Mohammad Syeduzzaman

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Abstract

The incompetence of privatized firms within emerging economies will lead great attention to the importance of agency theory and asymmetry information theory and their impact on the performance of privatization. A traditional agency problem (perquisite consumption and entrenchment) is intensified by the weak governance and unique agency problem (expropriation) is created due to the limited protection of minority share holders. We suggest that the post privatization performance can be enhanced by using the appropriate ownership, management and corporate structures that mitigate agency problems in the context of weak governance.

The main purpose of privatization is to provide with the private delivery of public services and in this case, asymmetric information can impact on both efficiency and quality of outcomes. This paper discusses the agency problem and the inherent asymmetric information in the process of privatization.

We examined the impact of good governance on the performance of 20 firms that were privatized by the sale of shares. As the state ownership of these firms is determined exogenously, existing managers become owners or are replaced. Moreover due to the limited number of skilled managers in the market economy in Bangladesh, we avoid the selection problem presented in the market where new managers may be better suited than existing managers to manage their firm. Controlling for initial conditions and using several measures of the firm's performance, we found that the performance of privatized firms were positively related to entry of new managers and similarly negatively related to holding shares of the state.

In our study first we introduced the MNR (Megginson, Nash and Randnbrogh, 1994) methodology. For our analysis we used Wilcoxon signed rank test to compare the financial and operating data of 2008 and 2010 after the privatization to evaluate the performance. Although

this methodology was applied in many studies but in this case it had its shortcoming because in our study we failed to used facts and statistics of pre privatization era. MNR method was not perfectly appropriate to access the performance due to a lack of sufficient historical data. To deal with this issue, we introduced the DID (difference in difference) methodology to compare the data of SOEs and privatized firms from the homogeneous group, that means we did the comparison of performance and analysis of data from the same group of sector.

The DID methodology showed that the post privatization performance of firms significantly improved in terms of profitability and productivity. This paper exposed an important impact of governance on firm's performance. Finally, we found that overall performance of firms which was privatized by sale of share increased significantly.

Key words: Agency problem, asymmetry of information, competency leadership, privatization

Chapter One

Introduction

Privatization is an important policy to vitalize state owned Enterprises (SOEs) in many countries as well as Bangladesh by managerial and governance changes. In general, privatization policies are introduced because of two most important reasons. Firstly, in most of Least Developed Countries (LDCs) SOE's performance was not satisfactory at all and secondly the government tries to minimize the fiscal budget on those SOEs. That is why privatization has become so popular in the LDCs. However, many privatization cases in Bangladesh did not bring any significant changes in corporate management of newly privatized firms due to a number of reasons such as political pressure from government, poor remuneration for management and improper monitoring systems for managers. A number of problems were observed in many privatization programs in LDC.

Whether privatization brings benefit or improves performance of privatized firms or not, is a controversial issue in the field of privatization. Some of the scholars argue that privatization should improve the performance of firm while some are of the opinion that privatization may bring efficiency in the firm but there is a high probability of losing social benefits. For example, World Bank (WB) has been encouraging the privatization in the LDCs countries by showing a number of efficiency of post privatized firms in their report. World Bank has been claiming that privatized firms are able to enhance their productivity and functionality which brings more transparency and efficiency for the privatized firms. This paper initiates from my personal interest in the restructuring efforts in transitional economies in Bangladesh. More distinctively, the process of privatization in Bangladesh has encouraged me to evaluate their nationalized and privatization policies from the point of view of new theoretical perspective. Under this background of my interests, anyone can find that my model will be best approach and more applicable with new theories to centrally designed economies.

In this perspective, this investigation would like to shed light on the performance of post privatization of few firms in Bangladesh in order to compare the performance report published by the World Bank. Thus, the main objective of this study is to evaluate the performance and efficiency of privatized firms in Bangladesh. In addition to this, this study aims to investigate the organizational changes of privatization as well as the process of implementation of privatization. Furthermore, it will focus on the labor-management interaction in the administration as an attempt to scrutinize the influence of leadership styles of at various management levels.

During privatization ownership transferred from public to new owner and creating new agency problem. Agency theorist must argue that new owner will give priority to managerial perquisite consumption and entrenchment problem (Gedajlovic & Shapiro, 1998). To refer this problem newly formed owner require agency cost to monitoring the action of management or have to provide incentive alignment to confirm the target of similarity between principal and agent (Eisenhardt 1989). Many researchers also have predicted that good governance mechanism in management, such as board of directors (BODs), managerial labor market and withdrawal of threats, can reduce many agency problem. Scholars have divided this mechanism in to two group's internal (organization based) and external (market based) control mechanism (Walsh & Seward 1990). This gives raises the fist research question

- How do the internal and external factors effect on the performance of the privatization firms and the management change system?

Our main objective here is to identify both traditional and unique agency problem in privatized enterprise because researchers in this field often neglect the role of agency relationship with in weak governance perspective. They have ignored the different ownership structure to resolve traditional and unique agency problem. To avoid this problem, we can use the effectiveness of management in ownership structures to optimizing risk bearing, incentive alignment and monitoring, adapting those in weak governance perspective. This arise the second research question:

- Which ownership structure in management system will reduce the traditional as well as unique agency problem and enhance the privatized firm's performance?

Based on this background and objective of this study, it attempts to answers the following research questions:

- What is the pre and post privatization performance of the firms in terms of profitability, capital investment, leverage and efficiency in asset utilization? Simultaneously asses the fiscal effect?

Although, there are a number of researches on the privatization of Bangladesh, but as the author's knowledge goes, there is literature which investigated exclusively the changes in the management system in post privatization period. This research aims to evaluate the efficiency and effectiveness of the style of management between pre and post privatization period in the context of Bangladesh. In addition to this, our research compares the performance of twenty different privatized firms from different sectors in order to see the different industrial sectors. Result of this report will be exclusively useful for the policy maker of the Bangladesh to design an appropriate policy for privatization. Furthermore, this thesis investigates the necessary conditions that are important for privatization which can be used by the policy maker in future privatization process. Finally, findings of this study also could be used for many other privatized firms of developing countries.

Chapter Two

2. Research Background

2.1 Privatization and its development

Concept of privatization initiates momentum over the world wide in recent decades and makes a completely new trend in the area of economic policy. The contemporary concept of privatization as economic policy was first introduced in Federal Republic of German in 1957. At that time government ultimately sold the majority share of Volkswagen to private sector. The next significant movement in privatization comes in the 1980s with Margaret Thatcher's privatization policy of Britain Telecom and Chirac's privatization policy in financial sector in France. After this privatization spread over with other continents as Japan and Mexico and specially privatized government own communication companies (Megginson, Nash, Randenborgh, 1996). Another most important remarkable role of privatization process world wide has been the fall of communist countries in Europe and former Soviet. In the case of privatization most successful country is Chili and Argentina. In recent time, many countries like China, Cuba and India start privatization though didn't achieve the expected level of success. As well as many other developing countries inaugurated privatization process like Bangladesh, Pakistan, and Vietnam etc in the hope of stimulating economic growth.

Bangladesh is trying to cope with privatization over three decades. This policy has been influence by number of economic and extra economic components. Bangladesh Privatization Board describes (2006) providing enormous incentives for encourage private investment. The Revised Investment Policy designed in 1975 for putting much emphasis in the development of private sector. They also analyze setting up Disinvestment Board and a total of 255 SOEs were privatized in between 1975 to 1981 and about 115 of these SOEs, were divested to the Director General of Industries (DGI). The NIP (New Industrial Policy) of 1982 indicates a major move towards privatization where total of 222 SOEs was privatized.

Centre for Policy Dialogue(2001) assess In the year 1993 the establishment of the Privatization Board and after the Privatization Commission in 2000, 74 state owned enterprises were privatized of which 54 were privatized through outright sale and 20 through offloading of shares. The Privatization activities are gaining momentum. This reflects the growing participation of the private sector in privatization.

According to Privatization Commission Journal (May, 2003) the most important move in the privatization process occurred in 1982 the NIP (New Industrial Policy) was announced. The government introduced fundamental changes of the adoption of different promotional measures and the industrial policy environment, redesigned to accelerate the pace for private sector-led industrial growth. Large number of industries in the jute as well as cotton textiles sectors (a number of27 textile mills 33 jute mills) were returned to their owners under the auspices of the NIP. For the purpose of encourage foreign private investment, the Foreign Private Investment (Promotion and Protection) Act of 1980 was established and a "One-Stop" service agency, for example Board of Investment (BOI), was set up, commencing it starts operations in January 1989.

Privatization & its development

World wide

German 1957

Volkswagon

Bangladesh

Disinvestment board (1975-1981)
255 SOEs privatized

Director of investment 1982

Margaret Thatchers 1980 → Japan & Mexico → Chili & Argentina → China → India, Pakistan, Srilanka

115 SOEs privatized → New industrial policy 1982 222 SOEs privatized → Act of 1980 established Board of investment, 1989 → Privatization board, 1993 74 SOEs privatized, among this 54 firms sale ownership, 20 by IPO

2.2 Type of Privatization in Bangladesh

Privatization refers to the process of transferring property from public ownership to private and simultaneously shifting the management of service or activity from government to private sector. It is much more than selling a firm to a highest bidder (World Bank 1995b). From the structural point of view, it represents marketization of firms and this can be achieved by changing ownership, organizational change or by change in operation (Ramanadhan, 1993). It is basically a political as well as economical and commercial process and gives rise to the needs of:

Balance and well organized privatization to earn the political goal

Selection of firms in a way that can achieve the political target.

Types of privatization in Bangladesh

Complete Privatization ex. Kohinoor Chemical	Privatization of operation ex. Jamuna bridge	Contracting out ex. Railway ticket sale	Franchising ex. DESCO	Open competition ex. BTTB T&T board

Those goals falls under two broad sorts of ways: macro economical (Social) and micro economical (firm-specific) goal. According to the policy and guideline of International Monetary Fund (IMF) and World Bank (WB), privatization only deemed to be occurring when the government reduces the shareholding to 25% (World Bank 1995b).

Privatization can be partial or complete and may also carry the conditions of change management. Privatization is the process of mechanism by which government reduce its direct involvement with the economy. Privatization covers a large scale of state operation, management and ownership arrangement. There is no specific or unique formula for privatization. According to the policy statement of privatization, following two methods of systems of privatization usually applied by privatization board in Bangladesh.

2.2.1 Sale by International Tender

Foreign and local buyers may participate in these tenders. Association of workers, employees and officers of tendered firm also can participate to buy the enterprise. The authority would prefer to use employee stock option programme (ESOP) if the workers of the tendered firm want to purchase it. In case of Bangladesh direct sales of SOE has been the dominant method of privatization. Generally direct sales have been more common than other methods (like public offering share).During 1980-1997, all over the world 831 privatization cases involved with direct sales of SOEs valued $ 176 billion US dollar compared to 630 cases of privatization through share issued (Megginsion, W.L., 1998).

2.2.2 Sale by public offer of shares

By using this method of privatization policy, government-owned shares in different enterprise and share of SOEs converted in to public limited company, may be sold to the public limited company to general public through the stock exchange or directly.

During our study we identify few types of privatization which may be considered in Bangladesh. Five forms of privatization are classified in Bangladesh, these forms of privatization are:

- Complete Privatization,
- Privatization of Operations
- Contracting out,
- Franchising,
- Open Competition.

1. Complete Privatization

Complete privatization means that sale of government assets to the private sector. Public run industries have generally been completely privatized through one of three main ways among this the first way is share issue privatization. The public enterprise sells shares that can then be traded on various stock markets. The second way of privatization is asset sale. In this way, the whole asset is sold to an investor and is usually done by auction. The third way is voucher privatization, in which shares of ownership of public enterprises are distributed among the citizens for a low price or without price, only socialist country uses this type of privatization.

2. Privatization of Operations

The privatization of operations refers to the transfer of public managerial and operational responsibilities to private sector firms. By this arrangement, the enterprise in the private generates income through the collection of fees from individual customers of the public asset. Such type of arrangement can be seen in transactions concerning the operation and maintenance of toll roads and bridges, such an example is Jamuna Bridge.

3. Contracting Out

Contracting out is the creation of specific services by a private enterprise under a contract. In this scenario, the private sector enterprise directly paid through taxes or collection of user fees by the government for their services. This types of services have been privatized through one kind of agreement include security services, data processing services, and consulting services for numerous professions.

4. Franchising

Franchising is an exclusive right to provide services within a specific region to a private enterprise by a public unit. The private enterprise generates income by collecting user fees. Utilities such as electricity, gas, and water service could also fall under this category, such as an example like Dhaka Electric Supply Company DESCO.

5. Open Competition

Open competition is same as pure competition; many private firms are allowed to compete for customers within a governmental jurisdiction. This kind of privatization usually can be applicable in telephone and internet service providers, such an example is T & T board.

In short, privatization mechanism can be composite of three basic elements of component such as polices, measures and strategies. As a policy matter, state with drawl their direct interventions form the economy of the country. As a measure its affect the shifting of asset or business activities and performance implementation agriculture, manufacturing, selected public services and utilities, from the public to private sector. And as a mechanism of strategy it can take the form all of the following: complete privatization, privatization of operation, leasing arrangement, contracting out and liquidation of enterprise in order to achieve a greater degree of performance and capability.

2.3 Historical back ground of privatization in Bangladesh

After liberation economy of Bangladesh was started dominate by private sector. The new government, led by father of nation Sheikh Mujibur Rahman, and was committed to socialism and nationalizing industrial sector. By 1974, public sector received control over 350 largest SOEs, which were almost the whole industrial sector. Nevertheless, their inefficiency negatively impact on the public investment (Ahmed, 1976a; Ghafur, 1976, World Bank 1993) and loss occurred 30% of yearly project aid. This reinforces the hand of opponents of the public sector. A military coup overthrew Mujib Government by assassination, father of nation in August 1975. Three month later, another coup and General Ziaur Rahman came to power and got full control in 1977. Zia government (BNP) initiated liberal economic policy and return small Bangladeshi owned companies to their owners. A disinvestment board was established and 255 SOEs were privatized between 1975 to 1981 (World Bank, 1997). Military leader was following the western policies, especially American and British ideology of Reaganism and Thatcherism, to legalize their undemocratic action.

In 1982, General Ershad came to the power; seek for western support and adopting their recommendations to privatized SOEs. Donor agencies have given loan facilities to privatization program and 27 textiles, 33 jute mills were returned to their owners. However, until 1986, the range of privatization was very inadequate. The number of privatization was large but all are small size of industries, for example below Tk. 2 billion to government receipts and it was easy to privatize.

In 1986 industrial policy has revised and many of SOEs became holding company (through joint stock Company) by selling shares under 51-49 plan.

Historical background

↓

Independent 1971

↓

First government led by father of nation Sheikh Mujibur Rahman, 1972

↓

Due to commitment to Soviet union Govt. own all most 90% Enterprise by 1974

↓

Father of nation assassination by military, 1975

↓

General Zia take power 1977, liberalized economic policy, 1975-1981 205 SOEs privatized

↓

Another cope, 1982 General Ershad came to power, 27 textile & 33 Jute mills privatize

↓

1986 industrial policy revised (NIP), SOEs privatized by issue of IPO (51-49 partnership)

↓

1993 privatization board established, 74 SOEs privatized, 54 sale ownership & 20 by IPO

↓

1996 Awami League govt. promises donor agencies &1996-2001, 13 SOEs privatized

↓

Presently most of the privatized SOEs owned by family, finally **Family Capitalism** established in Bangladesh

In 1993, the government established Privatization Board to accelerate the privatization process. Nevertheless, from 1991 to 1996, the board was able to privatize only 13 enterprises. However, in 1996 Awami League government took control of the country and promised to donor agencies to make stronger privatization process and from 1996 to 2001 only 9 small SOEs were fully privatized. Finally again this program fell short of expectation. The World Bank (1995) mentioned that without maximization of profit no firm could be competitive and private firm in Bangladesh had greater profitability than SOEs.

Presently, most of the business in Bangladesh are closely held by family circle and the change of ownership in privatization strike an important change and indicate the emergence, which is elementary of a market for corporate control management. Actually new ownership of the organization can create new management, while under public ownership there is no market for corporate governance because managers are rotated and transferred inside the organization or from bureaucracy to enterprise as a function of job rotation.

Research of post privatization performance of enterprises is still very few. Sobhan and Ahsan (1984) found that in jute mills sector, the performance of privatized mills were not better than the public mills. They conclude that privatized mills failed to enhance their financial performance (Ahmed, 1994). State own enterprises (SOEs) was holding 92 percent of total fixed asset of industrial sector. However, this enormous number of SOEs caused a great burden for the government of Bangladesh (Ahmed, 1976b, Ghafur,1976; World Bank 1993). After assassination of Sheikh Mujibur Rahman the new military government was strongly influenced by the World bank and IMF, turned increasingly to market linearization and privatization (Ahmed, 1976a; Ghafur, 1976). Many studies shows that in LDC`s management controls upon SOEs becomes irrelevant only for huge political pressure on decision making in commercial consideration and by over looking the formal accountability system (Jones and Sefiane, 1992; Quibrahim and Scapens, 1989; Wickramasinghe, 1996). The same occurrence happened in the Bangladeshi SOEs (Alam, 1990, 1997). Finally it was needed to privatize, World Bank (1993, 1995) and IMF have argued for an `enabling environment` for privatization in Bangladesh to build up accountability, transparency and efficiency. Privatization process continued from 1972 to 1996, it's a long period of time. As state-run operations in Bangladesh, the rigid organizational culture and the bureaucratic system in administration make it impossible to change overnight.

In the year 1978 military government come in to the power, it's inherent an economy that devastated by year of political imbalances, negligence's of economy and mismanagement. The massive damage to industrial sector, infrastructure, agriculture was such that it's require long time to repair and recover these to satisfactory productive level. Moreover, due to destruction of the economic base, large number of skilled professionals, expertise of different sectors and experienced administrators left the country only for fear from brutal command. The remaining managers were deeply demoralized by long period of misruled, insecurity and economy hardship. In this situation, the poor performance of SOEs becomes a budgetary burden for government.

Chapter Three

3. Literature Review

Firms can be graded the length of a spectrum according to the cost of intervention, and private firm is situated at one end of the spectrum on the other hand public firms position is on other end. In between this interval there is various numbers of mixed firms with different cost of intervention. By considering this entire thing the microeconomic literature about privatization can be divided in to two distinct parts-one consider the agency structure inside the enterprise and other one analyzing the information asymmetry inside the privatization and privatized enterprise. But we will consider the underlying connection between this two. There are a number of literatures which deal with the causes of inefficiency in the privatization sector. The two most important and dominant reasons which are described by the researchers are principal –agent problem and asymmetric information problem.

In this study, we identified the asymmetric information problem between a principal and agent which may hamper the performance of newly privatized firms. Since, an agent has more information regarding the production const than principal, an agent may manipulate the production system for the company.

3.1 Agency theory perspective

One of the main objectives of privatization is to promote work incentives in public firms. Holmstrom (1979) explained the principal agent problem in the context of privatization. According to him, a contract can be made between principal and agent where principal will motivate the agent to perform his best on behalf of the principal. Although, the principal is exposed to some degree of risk, if the contract is compatible for both parties it will maximize the benefits of firms and both parties will also have the probability to maximize their benefits. After Holmstrom, Baron & Myerson (1982) made the first initiate to model information in a regulatory framework.

Privatization impact on emerging economy and are resulting the transformation of ownership from public enterprise to private and therefore creates the agency problem of managerial perquisite consumption (Gedajlovic & Shapiro, 1998) and entrenchment (Walsh & Seward 1990). Perquisite consumption refers to the short-run cost increased activities designed by managers to increase non salary income. Entrenchment refers to the action of activities that reduces the managerial capability and decrease the control mechanism designed to regulate the management (Walsh and Seward 1990). We assert that the nature and harshness of agency problem in private enterprise in emerging economy differ from developed economy and limited the success of privatization. Researcher recommended that the agency problem can be solved in different ways among which the main threes are: 1. enhancement of incentive arrangement between agent and principal 2. Minimizing risk associated properties between principal and agent 3. Properly monitor of principle over agents. Such agency solutions rely, on the competent governance perspective established in most developed economies (Holl & Kyriazis 1997, Kochhar 1996). Traditional agency solutions that diminish the agency problem of the strong governance in the perspective of developed economy but might not be effectively works in the weak governance perspective for the emerging economies. However, traditional agency problem, in the weak governance for the perspective of emerging economy creates a number of alarms concerning to expropriation of minority shareholders (Cho, 1990). Expropriation takes place in the weak governance perspective, when the majorities of owners presume to control over firms and deny the minority owners right from the return of their investment (Morck, Shleifer, Vishny, 1988). That is why, traditional agency problems support principal-agent object disparities, which are replaced by unique agency problems arising from principal-agent objective disparity. So, the agency theorist offering solutions in the perspective of developed economy do not consider the unique solution.

In this context we can argue that only efficient governance system can provide privatized firms with a wide structural adjustment program which will reduce agency problem and gives incentives for managerial risk taking (Gedajlovic & Shapiro, 1998). Good governance mechanism in management can reduce the agency problem and this mechanism can be divided in to two ways: 1. internal control mechanism and 2. External control mechanism

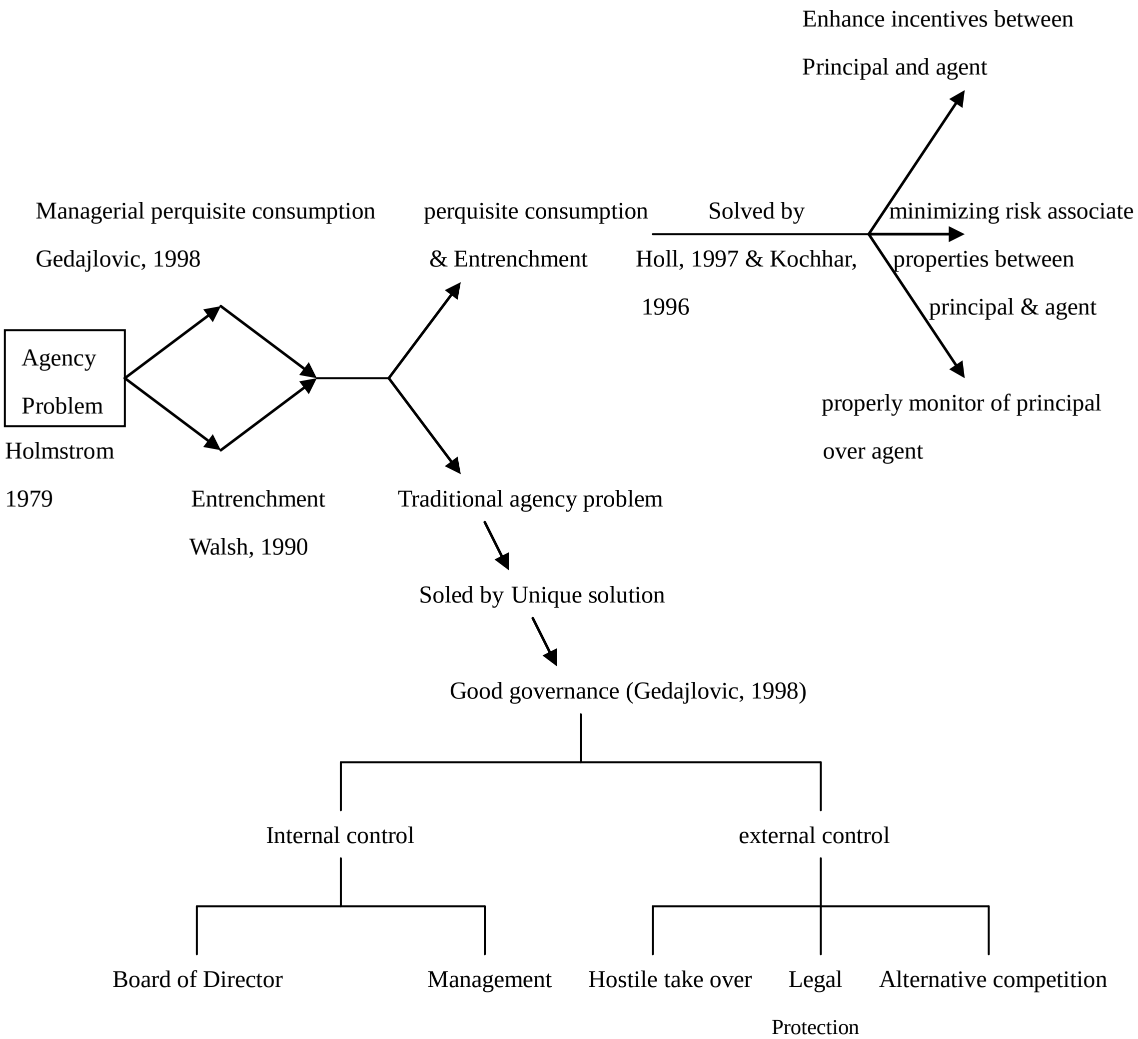
3.1a Internal Control Mechanism

Internal control mechanism refers to the monitoring of the BODs and mutual monitoring by top level management (Walsh and Seward 1990). BODs can assist shareholders to assess the performance of management and able to organize management perquisite consumption and entrenchment by providing short term (reward system) and long term (changing corporate structure) solution (Gedajlovic & Shapiro, 1998, Walsh and Seward 1990). Usually internal control mechanism is linked in German-Japanese model where share holds are directly utilizing BODs to control management and in this case external control mechanism (like hostile takeover) is completely absent (Frank & Mayer, 1993, Prowse, 1994).

3.1b External control mechanism

External control mechanism refers to the hostile takeover, alternative competition and legal protection of minority share holder privileges (Walsh and Seward 1990). It causes firm vulnerable to market interference, and incentives are provided for capable outsiders to take control of firm when firm is undervalued. The effectiveness of this mechanism is assisted by publicly availability of transparent measures of firm's performance (Prowse, 1994).

Therefore external control mechanism can reduce traditional agency problem by proper monitoring of executive behavior, while managers can be replaced because of hostile takeover and merger. Strong external control mechanism is usually found in Anglo-American model of corporate governance. Where shareholders are inactive in compares to internal control mechanism and depends on external corporate control mechanism (such as hostile takeover and merger; Bhide 1994).



Agency theory perspective

3.2 Asymmetric Information in Privatization

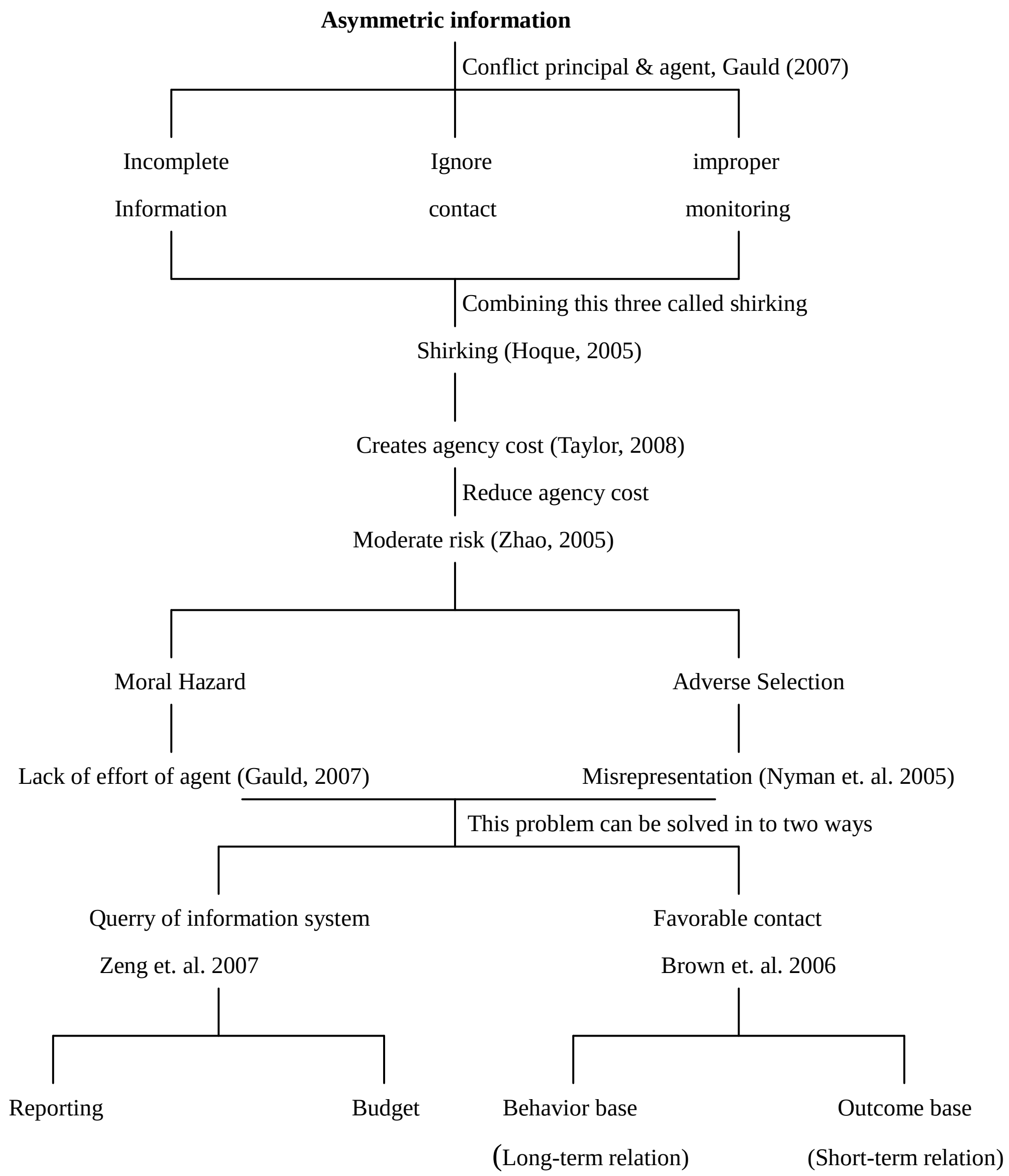
The role of asymmetric information became an integral part of the discourse on privatization in 1987. Stiglitz and Weiss (1987) first identified the asymmetric information problem in their revolutionary work "Market for Lemons". This asymmetric information problem is also exclusively applicable in the case of privatization process. They argue that, government intervention can cause the changes of performance of privatized firms. Transaction cost is one of the important parameter to distinguish between public and private enterprise (Shapiro & Willig, 1990).

3.2.1 Information asymmetry from principle-agent conflict

Information asymmetry is the basic core element of principal-agent theory and this agency relationship exists when government (principal) provides vendors (agent) for a specific job in which vendors have expertise (Larbi, 2006; Finkly, 2005; Brown et. al. 2006; Halachmi, 2000). Principal-agent theory can determine problem when the desires goal of principal and agent are in conflict and it is difficult for principal to verify performance of agent. Such type of difficulties arises due to incomplete information; ignore contract and improper monitoring (Gauld, 2007). This theory involve in cooperative behavior that provides guideline how both parties can develop relationship to maximize probability to achieve target of principals goal. The main assumption is agent does not share principals goal and thus will not complete satisfactorily if left to its own mechanism, a behavior referred to as shirking. It is practically impossible for agent to remove shirking (Hoque, 2005). In fact shirking exists irrespective of the degree of monitoring (Kettl, 1993). Thus main purpose is not remove shirking completely but reduce to a level that ensure the goal of a principle can be achieve.

Information asymmetry occurs when agent has better relevant information than principle. Such asymmetric information occur in respect of possible quality and cost configuration of project in the contracting process (Taylor,2005; Finkle, 2005). This raises the probability that agent can behave in way enhance opportunism (Bessire,2005). Result of such opportunism is agency cost and this cost arises when agent acts self interestingly with bad intension. Agency cost identify to address contractual difficulties which arises from asymmetry of information and anticipated agent opportunism.

Agency cost cover all cost associated with actual opportunism and formulate mechanism to follow up agent activities and to ensure that agent acting as per contract which is stipulated in deed (Wankhade & Dabade, 2006). This may provide incentives to monitoring performance of agent. Studies suggested that incentive based deed can be use to motivate agent positively. When risk is moderate, more incentive should pay to motivate agent and to perform on behalf of principles best interest (Zhao, 2005). However, if the level of risk increases, more fixed fees and less incentive may be more effective. Two main theme of agency problem is moral hazard and adverse selection. Moral hazard refers to the lack of efforts of agent since it is impossible for principle to monitor all agents' performance (Gauld, 2007; Brown at. al. 2006, Turner & Mullar, 2005). Adverse selection refers to the misrepresentation of ability of agent to principle. The agent may claim certain skill when he is selected to perform assign jobs. Adverse selection arises because it is difficult for principle to measure the performance of agent at the time of selection (Nyman et. al., 2005; Zeng et. al., 2007).



Due to unobservable decision (moral hazard or adverse selection) principle can determine agent performance through incurring agency cost, by query of information system such as budgeting, reporting, board of director and additional layer of management (Zeng et. al., 2007; Wankhade and Dabade, 2006). Such investments reveal agent behavior to principle. The agency theory tries to do the most favorable contract between principle and agent which is based on behavior or outcome. It presume an easily determined outcome, and an agent who is more risk adverse than the principle (Brown et. al., 2006; Nyman 2005).

Finally it presume that when principle and agent engage in long term relationship, principle will get chance to know more about agent, there by reduce information asymmetry. Such a case behavior base contract is appropriate. On the other hand in short term agency relationship between agent and principal it will be better to select the outcome base contract and it will be more attractive. As a result, the length of agency relationship positively involves with behavior based contract and negatively related to outcome base contract (Zhao, 2005; Gauld, 2007;).

3.3 Management Anchor Competency (MAC) Model

Competency in general is the ability of an individual to use the acquire knowledge in a complex and unpredictable situation (Perrenoud1997, Svetlik 2005). Gurban (2003) defines the competency as the use of knowledge and other capabilities that can be used to perform an appointed task, or of a certain role in the business process. Competency (MAC) includes knowledge, capabilities, expertise, behavioral characteristics, motives and values etc. In our research we will use the management competencies, which will focus on different level of management. Competency is an important element of corporate management and similarly corporate parent is integrals part of corporate management. Corporate parent can take value adding activities in different ways to enhance the performance of business unit by reducing agency problem. Principals of privatized firms can minimize agency problem by governance mechanism. Privatization is the result of wide verity of ownership structure that may vary between and inside national boundaries (Frydman et. al. 1997). We will examine the fundamental element of ownership structure and will try to asses the ability of reduce traditional agency problem in the weak governance perspective. Competency is competitive strategy by which firms increase profitability and able to decide strategic decision.

3.3.1 Post privatization ownership structure (MAC)

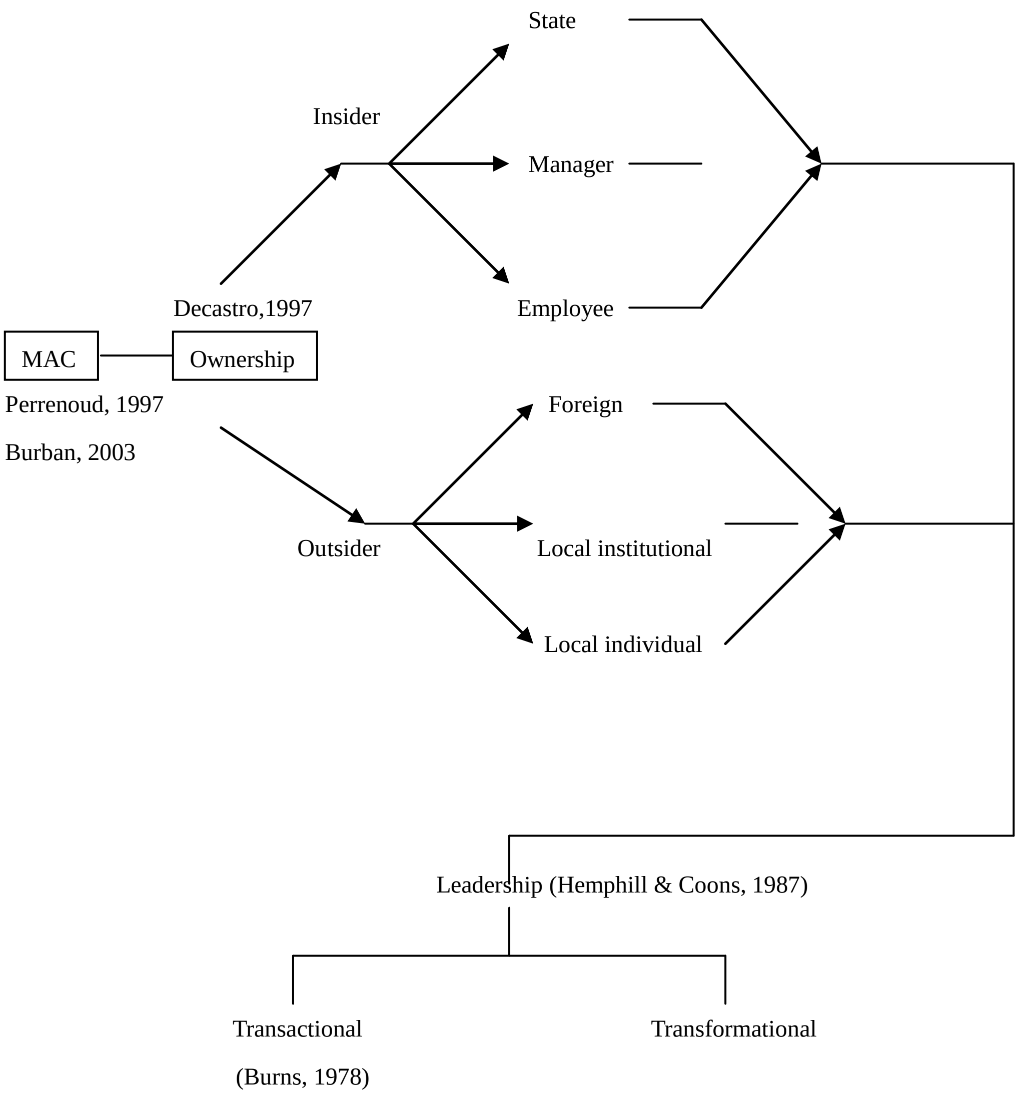
In our literature review of privatization we identified six fundamental type of ownership which may occur independently or combined. Namely 1. foreign investors (multinationals), 2. local individual investors (citizens) 3. local institutional investors (Banks) 4. managers (top management) 5. employees (except top management) and 6. states (DeCastro and Uhlenbruck 1997). We can segregate those six in to two groups one is insider, owner of this group continuing involvement after privatization. Another group is outsider, and owner of this group are not engage with the firm prior to privatization. Insider refers to employees, managers and state, whereas outsider refers to foreign, local and local institutional individuals. Beside this we can also design group of ownership that focus on dominant and distributed ownership. In the case of dominant ownership refers to majority equity ownership, while distributed ownership refers to non majority.

3.3.2 Post privatization ownership structure (MAC) as a function of ownership type

Ownership type	Dominant > 50% of equity	Distributed (minority owner)
● Outsider Foreign Local institutional Local individual	● In this case there is one outsider dominant that possess equity ● Equity is controlled by one hand of entity	● in this case there is multiple outsider dominant that possess equity controlling interest ● within each ownership equity is controlled by one entity
● Insider State Manager Employee	● There is one dominant that control the possess interest of equity	● There are more than one, that means multiple dominants that possess equity controlling

● Within this ownership type equity is controlling by multiple entities	● Within each ownership equity distributed among several entries.

Management anchor competency (MAC)



3.4 Competency Leadership

3.4.1 What are competencies?

Competencies are fundamental characteristics that lead to superior performance in an individual's job. They include qualities, skills, attributes and traits that help people to be successful. Competencies go beyond the traditional focus on academic qualifications, technical skills and experience, providing a framework for assessing and developing deeper-seated personal skills. Competencies are also capable of being developed in people rather than being fixed and immovable. Each competency is broken down to levels, each of which gives an illustration of what the competency might look like. This is done because it is not as simple as either having or not having a competency - different jobs will require different levels of complexity of the same behavior.

3.4.2 Definition of Competency Leadership

Leadership is one kind of performance of an individual to guide a group to achieve same target and goal Hemphill and Coons (1987). Definitions of leadership are many and still many scholars attempt to define this concept distinctively. Leadership as an art to drive others to reach target and simultaneously intends to accomplish Kouze and Posner (1987). Leadership is the action of leader using specific approaches that motivate group to achieve projected target and those approach defines the leadership style (Hannagan 1995). Its essential for leaders to challenge the status and create future opportunity for the organization. Boehnker et al (2003) mentioned leadership is closely related to things how member of group feel and linked the things with substances, work and environment. Robbins (2001) defines leadership as an influence of leader on ability of group to meet the goal. Finally in all culture, the practice of leadership as a rule is valued to a certain extent.

3.4.3 Theoretical framework of leadership style

Among all studies of competency leadership, the principle leadership style is the classic transaction-transformational type (transactional-transformational style of leadership derived by Burns and Bass) (Sashkin and Rosenbach 1993). Based on these two types of style, we will try to scrutinize different aspect and style of leadership.

3.4.4 Theoretical framework of transactional style of leadership

Transactional leaders give importance of the structure of initial interactive relationship among them and their subordinate, beside this underline the transaction between the leader and his associates. The transaction will be done on the basis of leaders clear message to the group of what is the essential and the condition and reward should clearly defined. When the group performs smoothly and subordinate accomplishes the target, performer must be rewarded (Bass and Avilio, 1994). The performance of capability of transactional leadership included the ability to achieve the assigned target, solve problem, make plan and organize. The leader must be efficient in good communication. In short, transactional leader expose a stable differentiate leadership style and as having been proved in many studies, emphasize the transactional-transformational leadership pattern.

3.5.5 Theoretical framework of transformational leadership

The famous administrative leadership and renowned scholar James MacGregor Burns (Burns, 1978) initiate the concept of transformational leadership style (Jabnoun and Al-Ghasyah, 2005). Burn proposed there are two type of leadership style namely; Transformational style (stressing the importance of change) and transactional (stressing the process and personnel) (Mason and Wetherbee, 2004). He explains rigorously the basic difference between these two types of leadership style and behavior. A transactional leader valued reward contingency and relative rewards (Burns, 1978), while the transformation leader provided more opportunity to followers to develop the performance and modify the quality of skill ness to desire level of output, more like self-actualization (Maslaw 1954).Bogler (2005) suggested in transformation style leaders and his subordinate stimulated each other to achieve higher moral and motive standards, where as in transactional style leader and his subordinate had their own separate target and each took part in transaction for their own interest (Burns 1978).

Relevant studies and evidence on the history of transformational leadership show that transformational leadership, like transactional leadership, is a stable and differentiated leadership behavior pattern capable of strengthen the transactional-transformational leadership model.

Chapter Four

4 Testable Hypotheses and Methodology

4.1 Testable Hypotheses

Government can influence public enterprise by controlling the appointment of directors and managers and also can influence the policy and objectives that management pursues (Ferner and colling 1991; 1993). According to Ferner (1998) negotiation and understanding in public sector enterprises are triangulation between Management, trade union and the government. The particular advantage of trade union for government is, it can be influence by government decision and politics. That is why SOEs are often highly unionized and characterized by the strong bargaining power of trade union.

On the other hand the private sector can be expected to depoliticize trade union-management relationship and enhance the bargaining power of management (Earle et al. 1996). Private management is provided with greater autonomy by shareholder and free from political control and the focus of shareholders on wealth creation also provides management defined targets (Ferner and colling, 1993). Privatization is guided by market liberalization, technological advancement and economic regulation, the successive need to improve the performance and protect market with additional influence in negotiating with trade unions (Ferner and Colling 1993). This gives rise to the first research hypothesis:

> *Hypothesis H1: Privatization will provide an increase in the relative bargaining strength of management.*

Privatization has a positive impact of the firms efficiency, leading to enhanced performance, decline the fiscal budget, reduce the government subsidies, enhance the income tax flow to the government and decrease in the public sectors stock of debts and borrowing requirements. This gives rise to the second research hypothesis:-

> *Hypothesis H2: privatization leads to an improvement of firm's net worth by increasing efficiency and reduction in the stock of debt by utilizing the sale proceeds to retire the debts.*

Competency model refers to the knowledge based management system in business unit and usually corporate parent using this competency. Corporate parent implies the level of management above that of the business unit. Corporate parent can take value adding activities in various way, among this the main three categories are Envisioning, Intervening, and providing central services. If the employees in private enterprise are not able to make sense what the corporate parent is, it is reality that they realize corporate centre is nothing more than the cost burden. Some times corporate parent prevent the employees from the realities of financial market by creating a financial safety net, that means that employees are completely ignore and does not know about the current position of the organization (asymmetry of information). This gives rise to the third research hypothesis:

> *Hypothesis 3: By introducing competency model inside the organization we can develop the performance of management*

4.2 Abstract of Testable Prediction

Under mentioned table summarizes the hypotheses of privatization changes result. This also gives the definition of proxies for variables used in our analysis. When calculating ratios, we use nominal data in both numerator and denominator and used data in local currency in this analysis.

Performance Measure	**Definition**	**Expected Change**
i. Profitability		
IBTA	Income before tax/total sales	Increase
IBTS	Income before tax/sales	Increase
IBTE	Income before tax/equity	Increase
ii. **Capital Investment**		
CESA	Capital expenditure/sales	Increase
CETA	Capital expenditure/assets	Increase
iii. **Payout**		
DVSL	Cash dividend/sales	Increase
POUT	Cash dividend/income	Increase
iv. **Leverage**	Total Debt/total asset	Decrease
v. **Employment**	Number of employees	Decrease
vi. **Employee income**	annual income per employee	Increase

5. Methodologies

The studies will conducted based on the secondary sources of information, published reports, articles and journal. The ratio analysis will be the basic tools of justifying the enterprise performance before and after privatization. In this case researcher investigation will try to find out the problems involved in different sector of industries and analysis their productivity and growth after privatization.

This method will help to investigate a contemporary phenomenon within its real-life context. In this respect, the case enabled to gain access to various data sources, and to process an extensive variety of material, such as documents, artifact, and observations. The method also allowed having a systematic observation of the policies, people, structures and context of an organization.

Adopting a case the selection of a research site is a major concern and in view of the study's final objective Bangladesh selected because a less-developed country and the author of this thesis is a Bangladeshi national. In this position it is easier for the researcher to approach the various authorities and firms.

The selection of the twenty case firms was conducted systematically on the basis of a number of criteria: the research objectives, accessibility of the firm, firm size, the composition of the firm's ownership, the business in which the firm was engaged, a mixture of strong (successful) and weaker firms, and the number of years the firms stayed in operation after being privatized. The firms which are privatized by privatization board have been considered in this study, as because performance trend can not be observed for a longer time period.

Secondary data are extracted from company records, audited firm statements, statistical reports, books, journals, publications, business and investment plans of the case firms obtained from the website, and annual consumer index reports. Data obtained from sources other than the case firms included documents on privatization policies, government reports and regulations, newspaper publications on the progress of the privatization and purchase and sale agreements, reports of the International Monetary Fund (IMF), the World Bank (WB).

This study will cover the time period between 1993 and 2010. The firm level analysis focused on determining whether the privatized case firms had indeed achieved the results as predicted with respect to improved MCS practices, firm performance, and the implementation of business plans. In order to measure the performance of each firm, ratio analysis will be conducted. Through the ratio analysis, internal factors which affect the performance and efficiency of privatization firms would be identified. In addition to this, the impact of government policies and WB's policies would be thoroughly analyzed to find out the effect of external factors.

5.1 MNR model of Megginson, Nash and Van Randenborg

Experimental literature suggested that when public enterprises were privatized their profitability enhance due to several reasons. Privatized enterprise is likely to be more profit oriented and less attention on social and political objectives. Managers are directly responsible to maximize the profit for shareholders. Profitability can increase efficiency and reduction of redundant labor, which was previously maintained by the politician for electoral reasons at the cost of firms (Boycko et al., 1996). Likewise, after privatization firms has scope to utilization of financial, technological and human resources more effectively due to huge pressure of profit target and more viable threats of bankruptcy and dismissal (Boycko et al., 1996). Furthermore, it is expected that output of privatization will increase due to better incentives, flexible financing and enormous opportunity of entrepreneurial activities (Megginson et al., 1994)

The theoretical model of BSV by Boycko, Schleifer and Vishny (1993) introduced the concept to determine post privatization performance of firms

- Profitability after privatization
- Its Operating efficiency
- And Capital investment

This model forecast a decrease in output, moreover on the basis of this BSV model Megginson et. al. (1994) studied 18 countries and 61 firms from 6 developing and 12 industrialized countries. They have analyzed the impact of privatization on firms profitability, capital structure and dividend policy, which was very significant for the post privatization performance. They have compared the performance of firm's pre and post era and finally found a remarkable increase in firms

- Profitability
- Proper utilization of resource
- Firms output
- Capital expenditure of sales
- Dividend payout

They have also found there was a significant change and decline in firms

- Government subsidiary
- Leverage
- And capital expenditure of total asset

In our study we used Megginson, Nash and Van Randenborg method

5.2 Theoretical concept of MNR model of Megginson, Nash and Van Randenborg

Variable	Proxies	Expected relationship
V(1)Profitability	i. ROS (return on sales)=net income/sales	ROSo>ROS1
	ii. ROA (return on asset)=net income/total assets	ROAo>ROA1
	iii. ROE (Return on equity)=net income/equity	ROEo>ROE1
V(2) Capital Investment	i. CESA (capital expenditure to sales)= Capital expenditure/sales	CESAo>CESA1
	ii. CETA (capital expenditure to assets)= Capital expenditure/total asset	CETAo>CETA1
V(3) Leverage	i. LEV1 (Debt to asset)= Total Debt/Total asset	LEVo>LEV1
V(4) Payout	i. DVSL (Dividend to sale)= Cash dividend/sales	DVSLo>DVSL1
	ii. POUT (Dividend payout)= Cash dividend/Net income	POUTo>POUT1

Where o implies the time period of 2008 and 1 is for 2010.

5.3 Application of MNR Model

This section was discussed how we would use and apply the MNR method to determine the post privatization performance of firms. This method of measurement implemented in few steps, which is mentioned in Megginson, Nash and Van Randenborg (199). The first step of MNR method is to determined performance variables of all sample companies for few years pre and post privatization data. Due to lack of data we constructed the performance measures for the last three (03) years data of the case firms. Three years before data considered as base data and compared the analysis of recent data with three years before data.

In second step, we will use Wilcoxon signed rank test as the main method of testing for remarkable changes in the performance variable. By using the post privatization data, the Wilcoxon signed rank sum test is simply the non parametric version of a paired t-test.

6 Empirical results by using MNR method

In this section we presented and discussed rigorously about empirical result for full same of 20 privatized enterprises (presented in table 5.1), and one sub-sample (presented in table 6.1). Table 6.1 summarized the empirical result for sample comprising of 20 enterprise privatized by privatization board from 1993 to 2010. In this practice, we compared the average operating and financial performance of these firms after privatization and compared data of last three years.

For each proxy, we used the number of observation, the mean and median of the variables, and Z-statistics of Wilcoxon signed rank test, which was the test of considerable change in median value. In addition to Wilcoxon test, this exercise also employed the proportion test and last column of table gave us the result of percentage of firms that performed in a way we expect together with the p-value of the proportion test. We calculated ratios by using the nominal data in both the numerator and denominator and all data used hare for analysis in local currency.

Table 6.1 Result of full samples from test of prediction

Fig. Million Taka

	No	Mean before (2008)	Mean After (2010)	Variation of mean	Z-statistics of Wilcoxon signed ranks test	% of firms that changed as predict
		Median	Median	Median		
PROFITABILITY						
ROA	20	0.0240	0.0486	0.0246	5.028	70%
		0.0167	0.0370	0.0203		
ROS	20	0.0114	0.0416	0.0302	6.019	76%
		0.0125	0.030	0.0165		
ROE	20	0.0862	0.0975	0.0113	4.391	73%
		0.0571	0.1242	0.0671		
OPERATING EFFICIENCY						
Sales	20	287.1539	398.1678	111.0139	5.072	73%
		95.9649	132.9989	37.034		
Income before tax	20	4.1998	9.1995	4.9997	6.658	78%
		1.3298	4.1018	2.772		
OUTPUT						
Real sales	20	80999.89	95187.37	14187.48	3.465	67%
		24775.89	22590.56	-2185.33		
LEVERAGE						
Ratio	20	0.4988	0.6102	0.1104	4.944	56%
		0.5217	0.6411	0.1194		
EMPLOYMENT						
Total	20	337.0398	286.1249	-50.9149	-3.901	68%
		181	122.8997	-58.1003		
Labor welfare	20	12.7021	16.5587	3.8549	7.268	83%
		11.0369	14.6501	3.6132		

6.1 Profitability Changes

In our study, profitability was measured by using three ratios, return on sales (ROS), known as commercial profitability, return on assets (ROA), similar to economic profitability and return on equity (ROE) called financial profitability. In calculation of these three ratios we used income before tax in the numerator in stead of net income because as per policy of Bangladesh, privatized firms were enjoining income tax exemption facilities up to certain period of time. Not only this, privatized firms can borrow money from states bank with the lower rate of interest as similar to the SOEs. The government under certain circumstance writes off all or part of bad debts incurred by the SOEs to motivate and to enhance the performance of firm's profitability.

We found, profitability of firms after privatization increased significantly in terms of ROA, ROS and ROE for full sample. After privatization mean of ROA increase 2.5%, from 2.4% to 4.9%. Moreover, 70% of firms are able to enhance their profit margin after privatization. Likewise, after privatization ROS increased 3.0%, from 1.14% to 4.16% of total asset and 76% firms able to enhanced profit margin. The mean of ROE increased by 1% from 8.6% to 9.8% and the median increased 6.7%, from 5.7% to 12.4%. The Wilcoxon test showed that the median of this profitability changed positively at the one percent level.

6.2 Efficiency Change

To calculate efficiency first we adjust the inflation and use the income before tax per employee. After privatization both mean and median were changed considerably and sales per employee for 2009 was 286 million taka and for 2010 399 million taka. Income before tax per employee for 2009 was 4,26 million taka for 2010 was 9.29 million taka, which was more than double. Moreover, sales efficiency increased 73% whereas income efficiency increased 78%, both appreciably at one percent level. Clearly these were very dramatic gain of post privatization efficiency.

6.3 Changes in output (real sales)

In our calculation we used the inflation adjustment of sales as an output measure of firm. Wilcoxon test showed real sales increase after privatization and the change is at the one percent level. Wilcoxon test implied the real sales increased significantly from 81,062.39 million in 2008 to 95,316.26 million in 2010 and 67% of firms increased in real sales, which was considerably at one percent level. Moreover, the output of median remains stable and was a little decrease of amounting 2,211.

6.4 Leverage Change

In our study we defined change in leverage as the ratio of change in total debt to total assets. In compares with the result of other study (D`Souza and Megginson 2000; Megginson, Nash and Randenborgh 1994), Wilcoxon test in this study showed a considerably change in leverage and increased significantly for privatized firms. The leverage of firm increased from mean of 50% in 2008 to 61% in 2010 and the test also exposed that 56% of firms increase in their leverage ratio. The main reason for difference between the result of our study and the others empirical study that as per Bangladesh privatization policy the privatized firms were still treated as SOEs by many state-owned commercial banks. Moreover privatization laws and regulation allows privatized firms to enjoy the SOEs status for several years (such as tax exemption and loan facilities with lower rate of interest as SOEs). Finally even with government debt guarantee, the cost of borrowing fund for privatized firms may not increase significantly.

6.5 Employment and employment welfare changes

The analysis of this part of our study authenticated our expectation about the reduction of surplus employees after privatization. The Wilcoxon test implies a significant decrease in the average employment, from 337 in 2008 to 286 in 2010, that means 51 employees reduction per enterprise. The proportion test also showed that 68% of firms reduced the employment, which was considerably at one percent level.

In sequence with reduction of employment implied the increase in employment welfare. The labor welfare determined increase from 11.04 in 2008 to 14.65 in 2010, which means an increase of 4 million per employee. Moreover 83% of firms reported enhance in their employment welfare.

It is mentioned that the changes exhibit by Wilcoxon test was statistically important and change in the median was in parallel direction and with the alike significant in the mean.

7. Verify performances Difference in difference (DID) method

7.1 Methodology

The relative method compared the firm's performances after the privatization. The main problem of this method is that it is unable to segregate internal and external economic factors and its impact on privatized firm's performance. In other word, performance of firms can be measured in different ways (as determined by ROA, ROE and ROS for instance). Hence, to evaluate the impact of privatization on financial performance of firms needed to separate the impact of privatization from other factors. So, there are two dimensions of comparison. The first is to compare the difference between two groups of firms, privatized and non-privatized. It is the difference across the **category** and the second comparison is the difference between before and after the privatization, this is the difference in course of **time**.

First, we started to build up a control group consisting of SOEs that will be not subject to privatized, so that, we can check the pre and post privatization performance of firms and will be able to verify result of the control group by compared result obtained from the treatment group (privatized firm).

Second, we compared the difference in performance measured of the treatment group to the different of performance measures of the control group. In our study, the reference period was 2008 and 2010. First we determined the performance of each sample firms in the treatment group (for year 2008 & 2010), after that, we calculated difference in performance of all firms in the treatment groups. The same procedure will be applied for the control groups.

Third, in the next step we determined the differences of performance of these two groups and it is the step gives the name difference in difference (DID) method.

7.2 The control sample

First we selected the firms which yet remain 100% state owned enterprise. Now for each firm in the treatment group, we needed to find a counterpart firm in the set of SOEs, which will composite the control group. We did this task by differentiating firms in both set of SOEs and treatment group according three criteria, specifically industrial sector, geographical position and size for firms. Next for each treatment group, we selected SOE that best matched the corresponding firm in treatment group. Similarly we can say that the selected SOE must be in the, same geographical region, homogeneous sector and similar size of the corresponding firm in treatment group.

Repeating the same procedure for all firms in the treatment group, we composite the control group that includes 8 SOEs which best matched the characteristics of the corresponding firms in treatment group before privatization.

Table 7.1 Description of two groups

		Employee	Salaries	Assets	Sales revenues
Control Group	Min	20	120.40	1120	280
	Max	5810	149967	910436.6	632338.6
	Mean	330.02	4498.07	45178.86	63848.50
Treatment Group	Min	30	98	332	214
	Max	5805	159978	484866	1366813
	Mean	340.38	4480.50	26768.70	59122.70

7.3 Result of DID method

The result of DID are shown in table 6.2. In case of treatment group all performance measures increase after privatization. There is average ROA increase of 2.7% after privatization, rises from 2.4% to 4.9% and the same thing for ROS rises from 1.14% to 4.2% that means an increase by 3.02% point. Similarly ROE after privatization is 9.75% in comparison to before 8.62% and an average increase of 1.13%. Productivity is changed powerfully; sales efficiency rises from BDT 287.15 million to BDT 398.16 million per employee, an increase of BDT 111.02 million per employee. Profit increases from BDT 4.12 million to BDT 9.19 million per employee and average growth of BDT 4.99 million per employee after privatization. Moreover, leverage ratio does not change significantly. On the other hand, we notice that performance enhancement is average as well as in median and ROE rises from 5.7% to 12.42% and an average growth of 6.71% after privatization.

During the same period firms in the control group, profitability of SOEs declines and in some cases diminishes. Moreover, its productivity enhances considerably. We found in the control group that ROA of firms before and after (the same period) privatization was 2.15% and 1.55%, a slight fall of 0.61%, the commercial profitability ROS before and after privatization was -0.05% and 0.19%, a little rise of 0.24%. The financial profitability ROE rises from 2.71% to 3.82%, and average increase of 1.11%, where as is median, there is an average fall of 0.05%

and decreases from 4.40% to 4.45%. On the other hand, sales per employee rises from BDT 300.13 million to 449.99 million and in median its changes from BDT 88 to 109.69 million, namely a rise of 21.69 million per employee. The profitability per employee increases by BDT 3.28 million from 3.11 million to BDT 6.39 million. However, in median profit per employee remains same level at BDT 1 million. On the average, the leverage raised by 16.3% from 62.01% to 78.31% and the median leverage ratio raised by 14%.

From the result of evaluation performance of each group for the same time period having controlled the characteristics of firms in two groups, we have seen the difference in performance change of each group to privatization. We found that the performance of privatize firms improves better than SOEs in terms of profitability and productivity. The control group shows only better performance in average sales per employee and leverage ratio. From this result we can conclude that privatization has made it possible to improve performance of firms in a statistical significant way.

Table 7.2 Summary result of DID method

	Treatment Group				Control Group					
Measure of performance	N	Mean (Median) 2008	Mean (Median) 2010	Difference In Mean (Median)	N	Mean (Median) 2008	Mean (Median) 2010	Difference In Mean (Median)	DID between two group	Z-statistics for DID
PROFITABILITY										
ROA	20	0.0240	0.0486	0.0246	8	0.0215	0.0155	-0.006	0.0306	*0.000*
		0.0167	0.0370	0.0203		0.0098	0.0074	-0.0024	0.0227	
ROS	20	0.0114	0.0416	0.0302	8	-0.0005	0.0019	0.0024	0.0278	*0.000*
		0.0125	0.030	0.0165		0.0096	0.0069	-0.0027	0.0192	
ROE	20	0.0862	0.0975	0.0113	8	0.0271	0.0382	0.0111	0.0002	*0.000*
		0.0571	0.1242	0.0671		0.0440	0.0445	0.0005	0.0666	
EFFICIENCY										
Sales	20	287.1539	398.1678	111.0139	8	300.1356	449.9990	149.8634	-38.8495	*0.347*
		95.9649	132.9989	37.034		88.0032	109.6898	21.6866	15.3474	
Profit	20	4.1998	9.1995	4.9997	8	3.1145	6.3990	3.2845	1.7152	*0.000*
		1.3298	4.1018	2.772		0.9899	1.0598	0.0699	2.7021	
INDEBTEDNESS										
Leverage ratio	20	0.4988	0.6102	0.1104	8	0.6201	0.7831	0.163	-0.0526	*0.108*
		0.5217	0.6411	0.1194		0.6199	0.7599	0.140	-0.0206	

Chapter Five

8. Discussion

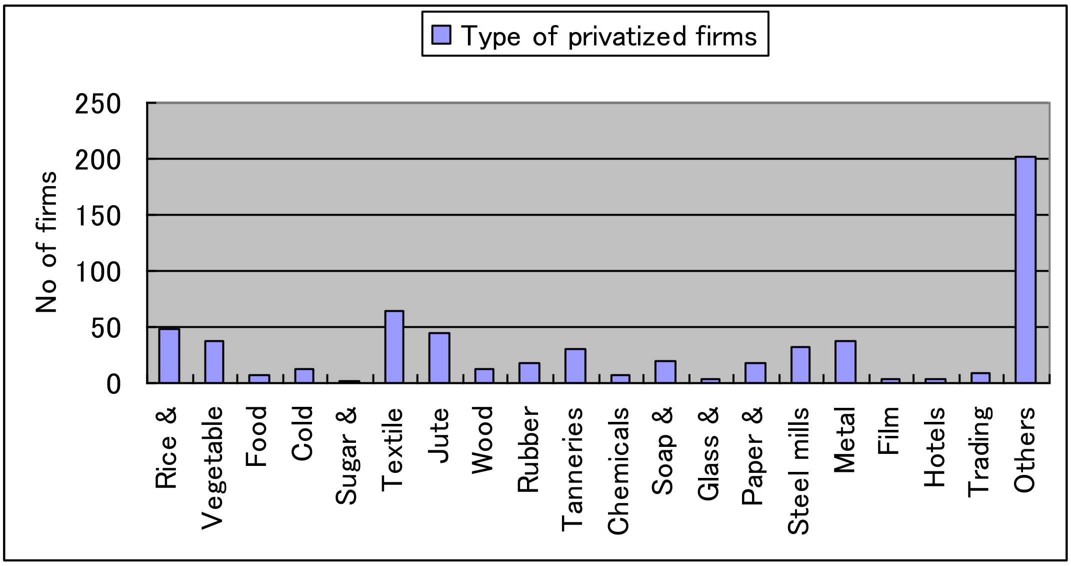
8.1 Distinguish between different phases of privatization

A study of the performance of privatized firms (divested during 1980s) has been done by World Bank (1993) and reported that nearly 50 percent of firms has been closed down. This study shows 245 firms out of 497 small and medium industrial enterprise has been shout down. A useless asset base, high debt liabilities and lack of good governance are mentioned the cause for poor performance of divest firms.

8.1.1 Type of industrial enterprises privatized during 1972-1996

Type of enterprise	*No of enterprise privatized in different period*				
	1972-75	*1975-81*	*1981-86*	*1991-96*	*Total*
Rice & flour mills	20	21	8	-	49
Vegetable oil mills	5	21	12	-	38
Food products	-	5	3	-	8
Cold storage	-	7	5	-	12
Sugar & food	-	-	-	1	1
Textile	11	21	27	6	65
Jute products	-	9	35	-	44
Wood products	3	9	-	-	12
Rubber products	-	16	1	-	17
Tanneries & bones	-	25	5	-	30
Chemicals	4	-	-	4	8
Soap & chemicals	-	7	12	-	19
Glass & optical	-	3	1	-	4
Paper & printing	8	7	2	-	17
Steel mills	12	8	10	2	32
Metal works	7	25	5	-	37
Film	-	3	1	-	4
Hotels	-	2	1	-	3
Trading	-	3	6	-	9
Others	50	63	88	-	201
Total	**120**	**255**	**222**	**13**	**610**

Source: Report of ILO (1999), Adapted from Privatization in Bangladesh by Momtaz Udin Ahmed



Source: Report of ILO (1999), Adapted from Privatization in Bangladesh by Momtaz Udin Ahmed

8.1.2 Performance of privatized firms before establishment of PB

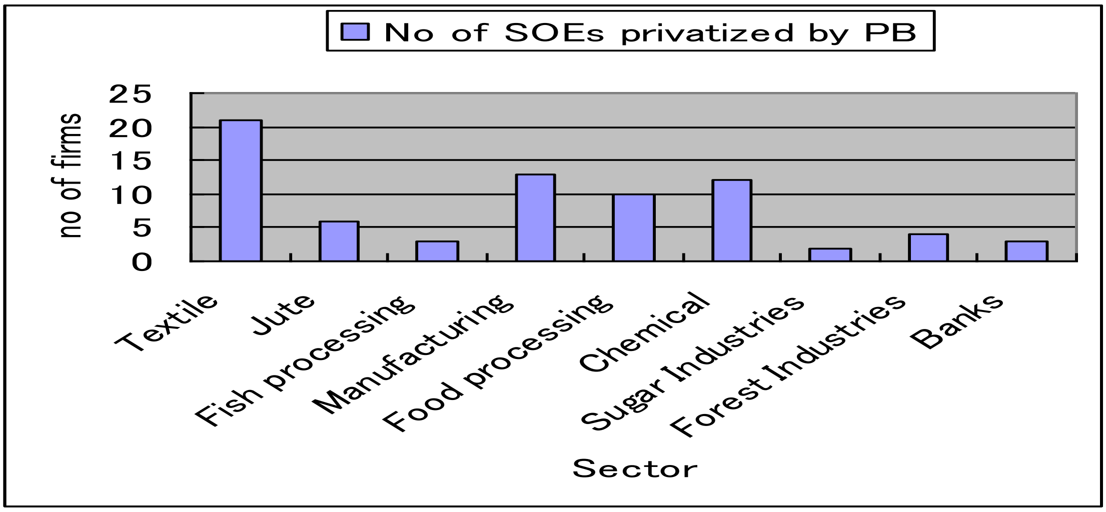
Report of Binayak Sens survey (1997) of privatized firms in Bangladesh

Bangladesh Institute of Development Studies (BIDS) conducted a survey performance of privatized firms in Bangladesh, under the direction of Binayak Sen (1997) and catalogues the post privatization performance status of 205 firms. Sen Analyzed and showed the current status of those firms (divested from 1979 to 1994) before the establishment of PB in terms of either being in operation or closed down after privatization. A key finding is that there is a mentionable change in partnership of owner and around 26 percent of firms ownership has changed and presently holding by new owner. Out of 205 firms listed in the survey, 40 percent of firms have closed (83 firms are reported as closed) down and 55 percent (112 firms) of firms in operation. Sahota et. al (1991) reported that the rate of shutdown of firms in manufacturing sector is 20 percent that means for every five firms one shuts down. 5 percent (10 firms) firms are found to be non-existing in the market and presumed have been liquidated. Among the operating 112 firms 40 percent (44 firms) firms are producing different product than what they produce before privatization. On the other hand, among 83 closed firm, Sens survey reported that 30 percent (28 firms) firms engaged in alternative businesses (trading, services) and 70 percent (65 firms) reported as inactive.

Similarly, the above study mentioned that capacity utilization below 75 percent in 36 percent (40 firms) firms out of 112 firms and 64 percent firms capacity utilization is above 75 percent.

8.1.3 Privatization of SOEs by Privatization Board

Since the establishment of the Privatization Board (The Privatization Commission) in 1993, a total of 74 enterprises have been privatized. Out of this, 44 enterprises were privatized by outright sale and 20 by offloading of shares, 8 enterprises were transferred to the ownership of the worker and employees' association and the remaining two were handed over to Bangladesh Army and Navy. An amount of Tk. 709.9 crore has been deposited to the Government exchequer as sale proceeds of the enterprises.



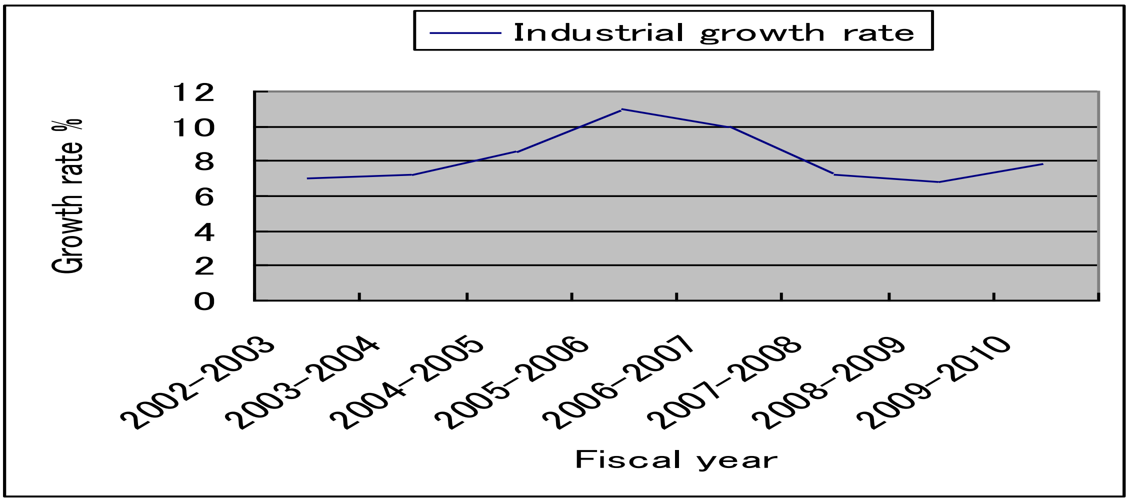
Source: privatization board of Bangladesh

8.1.4 Result of testing World Bank Claims by Shahzad Uddin, 2005

(Conditions 54 firms privatized by sale of ownership)

Another survey was done in the sample group of 13 companies out of 54 firms which is privatized by sale of ownership and reported that each privatization sale was to a family. So the family capitalism may experience with different output than western institutional ownership in professional salaried managers. Observation in sampled privatized firms supported such claim. The principal-agent relationship was in a complex manner among those firms. For some principal became agents of the firms by holding the majority of share and had captured the control, finally become the top managers. The principal-agent relationship is in complex model dynamically for the privatized listed firms. As minority shareholders of those firms became powerless to secured sound statutory information (Shahzad Uddin, 2005).

The growth of industrial sector has faced a serious decline of 45 per cent from the peak of FY2005-06 till now. But the growth rate of this sector is decreasing day by day shown in Figure



Source: Bangladesh Economic Review 2010, MTBF 2010-11

8.1.5 Findings of our study (20 firms), privatized by IPO

Privatization started in Bangladesh after 1972 it's a long history but my concern is after establishment of privatization board (PB). PB handles 74 enterprises and the method of privatization was divided into two ways.

1. sales of ownership (54 firms) &
2. Issue of IPO (Initial public offer) through stock exchange (20 firms)

8.5.1 Issue of IPO

At the time of data analysis, we have founded that post privatization performance of 20 firms increased in terms of Profitability (ROA, ROE, ROS), sales, income & leverage etc. All those variables are positive in MNR method and as well as in DID method. Those firms did better because of their stakeholders and shareholders. At the time of AGM (Annual General Meeting) they have to satisfy their shareholders and board of director (BOD), similarly to stakeholders. Moreover, regulatory body security exchange commission (SEC) watching the market continuously, if the share price fall down they notice to the authority to follow up the performance of firms. As a result post privatization performance of those firms increase.

8.5.2 Sale of ownership

On the other hand, enterprises privatized by sale of ownership are not doing better due to lack of good governance in management & poor monitoring system. As per policy of government and privatization board those firms enjoying the loan facilities with lower rate of interest similar to SOEs and availing tax rebate up to a certain period of time. That is why they are availing a huge amount of loan facility and divert that fund to different business. A large amount of asset but they reduce manpower to save the expenditure for their own interest, finally whole assets are unutilized. Especially there is no regulatory body to follow up the performance of privatized firms. In these circumstances, we can say that if privatization board takes the necessary action to sale SOEs by issue of IPO, it will bring the success of privatization in Bangladesh.

8.2 Comparison of firms privatized by issue of IPO & Non IPO)

8.21 CCCG privatized by sale of shares through SEC (Security Exchange Commission)

Chittagong Cement Clinker Grinding Company was partially privatized in the year of 1988 and became a listed public limited company by sold its 51% government holding of shares in May 1992 and its became fully privatized. It is the biggest grinding cement mill has monopolistic power in the growing market of cement in Bangladesh.

The World Bank reported that Chittagong Cement Clinker Grinding Company was in profitable during the partial and full eras of privatization. In 1998-99 the CCCG achieved profit target of Tk. 95.02 million which was 111% of its target and the financial performance of CCCG enhanced significantly under the private ownership. Between 1995-96 and 1992-93, sales revenue of the company increased by 64% and the production of the company enhanced by 40%. An expansion program has been undertaken by the company to enhance its production with a forecasting of triple production capacity by January 1999 and that is why CCCG became the largest cement manufacturer in the country".

The finding of our study is very much similar to those reports of the World Bank and CCCG is one of the most successful privatized companies in Bangladesh. After privatization, sales of the company rose by more than two times, profit increased by nine times and ROA enhanced almost four times. CCCG's market shares with a face value of Tk.100 raised at Tk. 1071.25 on November 3, 2001, which was remarkably high and satisfactory as per to SEC records.

8.2 EBCM privatized by sale of ownership

Eagle Box & Carton Manufacturing Company was formed as private company in the year of 1961 to produce packaging materials for industrial and commercial purpose. It was became nationalized company in 1972 and privatized in the year of 1998 as a public limited company. It was profitable in public era as SOE. A tender was invited for the government shares in 1992 and the company was sold and in December 1994, handed over to the successful bidders, a family.

The World Bank Claimed that the annual turnover of the company fallen by 20% “Between 1994 and 1995 and sales revenues of the company dropped by 25% and that is why losses occurred and increased extremely. The new owners after privatization reduced 25% of the employees to enhance the efficiency and lower costs. The newly privatized companies carried out huge repair and reorganized projects to reestablish the dynamic capacity and were introducing development programs to converse the loss-making trend to the company with anticipation that they would expect to see the profits in the near future”.

Eagle Box & Carton Manufacturing reduced its employee in a substantial way and reduced expenses by cutting workers’ wages. The company account discloses that since a substantial number of employees and labor were casually or informally appointed. The trade union stimulated and influenced upon management and were almost absent under private ownership and as casual workers they were not allowed to be members of trade unions.

9. Limitations of the study

During the time of this study the researcher has found that it was very difficult to get data access of the company. The company owners and management of the firm did not appeared to recognize the benefits to be increased from the result of this research and was therefore very much reluctant to disclose their company data. Finally, as a result, the limited number of privatized company the researcher studied during this study period. Owners and managers of the company could be made more conscious of the advantages and benefit of the participation in research studies by the delivery of information and training to them. This kind of training could also be conducted at the type of data suitable for sharing with scholars. Additionally, the data sufficiency of data bank and information of the ministry of Trade and commerce was incomplete. Another major problem was to get the data and information regarding the pre-privatization era, as well as it was difficult to find out respondents who could gave information and statistics on the governance practices in the public ownership period. For example, In the case of any company of privatized firm, the researcher failed to manage and find out accounting and financial staff or members who had also worked with the firm during the public and private ownership period. Moreover, the case firms of my study had not kept their pre-privatization financial and statistical records especially in the balance sheet in website, and the information which they provided through website was incomplete. In some cases, it was very difficult and complicated the valuation of issues such as leverage, taxes, capital investment and past employment trends etc.

There is very little literature that discus and explains the governance practices from the perspective of companies in the less developed countries (LDCs). There is not available much literature about the impact of governance change system on firms performance in the context of privatization in less developed countries. Research of this study dealing with the topic includes studies conducted in Vietnam and Pakistan and the scope of these studies is much limited. The researcher of this study tried to make comparison the findings with those of the former studies. But found that as yet no similar studies in this filed have been done in Bangladeshi firms. Most of the studies has done and analyzed the governance practice change have been conducted in the West. The majority of these researches do not pay much specific care to the way the same methods are used after a change in ownership. The researcher of this study thus had no considerable experimental indication to compare my findings with. This survey of study efforts to make a link between the impact of contextual factors and governance practices changes of company activities and its performance. It has become obvious that this relationship is complex and the researcher of this study realizes that this research field still has needed a great deal of investigation. Therefore more experimental findings have to be collected by similar case studies.

10. Conclusion

This paper studied the impact of changes of corporate governance in post privatization performance of 20 privatized enterprises in Bangladesh. Two approaches have been used to identify and analysis the issue.

The first approach used the MNR methodology, we applied the Wilcoxon signed rank test to compare the data of privatized enterprise and its financial and operating performance of firms before and after the privatization. The result of this study showed a major change and improvement in most measure of performance, namely productivity, profitability and employees welfare.

The second approach used the DID method to address the shortcoming of the MNR method, which we apply to analyze the post privatization data of firms performance. We used this test because the MNR methodology was not able to analysis the data perfectly due to data availability of the pre privatization era. The DID approach compared privatized enterprises (a treatment group) to SOEs which are still run by the state ownership (a control group) to highlight the intrinsic impact of the privatization. Similar to the first approach, the DID test also ensured that privatization brought about a significant change and improvement in performance.

This paper also investigated the impact of the governance on the corporate management and agency problem due to the information asymmetry.

First the privatization tended to bring an important change in the ownership structure of firms. We were able to identify the negative correlation between the government remaining ownership in privatized enterprise and their performance improvement. In particular, privatized firms of which the government held company shares by less than 51% able to enhance profitability more than the enterprise of which the government held more than 51% shares.

Second by introducing competency leadership, management personnel change associated with the privatization proved to be important with respect to the performance improvement. Privatized firms with new managers improved their performance much more than those which were still run by old key managers. Although the old managers posed good knowledge of enterprises and maintained the relationship with government's apparatus, they were less dynamic when it came to enterprise restructuring.

Competition is one of the major reasons to push firms to improve their performance and in this case the competency leadership plays an important role. Our study found that the competency leadership resulted from the opening to foreign markets and more developed geographical location in domestic market, which had positive impact on the performance of privatized firms.

Finally, we found that privatized firms were still dependent of nationalized bank as the source of funding for their activities. This result was verified by the facts that in general, the leverage ratio of firms increased considerably after the privatization.

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